Canadian Grain Commission | Commission canadienne des grains

Quarterly Financial Report:

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs (Unaudited)

For the Period ended September 30, 2014

Canada

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Canadian Grain Commission
Quarterly Financial Report
For the period ended September 30, 2014

1. Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates*. It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The Canadian Grain Commission was established in 1912 and is the federal government agency responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the CGA is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

The CGC's vision is to be "To be a world class, science-based quality assurance provider." The CGC reports to Parliament through the Minister of Agriculture and Agri-Food.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are properly compensated for grain deliveries to licensed grain companies.**

The CGC's Program Alignment Architecture has five programs that each contribute to making progress to the sole strategic outcome. The programs are:

- Quality Assurance Program,
- Quantity Assurance Program,
- Grain Quality Research Program,
- Producer Protection Program, and
- Internal Services.

Further details on the CGC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Budgetary Authorities compares the Department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates*.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through *Appropriations Acts* or through legislation in the form of statutory spending for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the *Departmental Performance Reports.* However, the spending authorities voted by Parliament are on an expenditure basis (modified cash) of accounting.

1.3 CGC Financial Structure

A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. Prior to August 1, 2013, CGC user fees had not increased since 1991 despite the fact that operating costs had continually increased. As a result, overall cost recovery had fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent in the past decade. The CGC's falling cost recovery level caused the CGC to rely on ad hoc government appropriation since 1999 to fund operations on an annual basis.

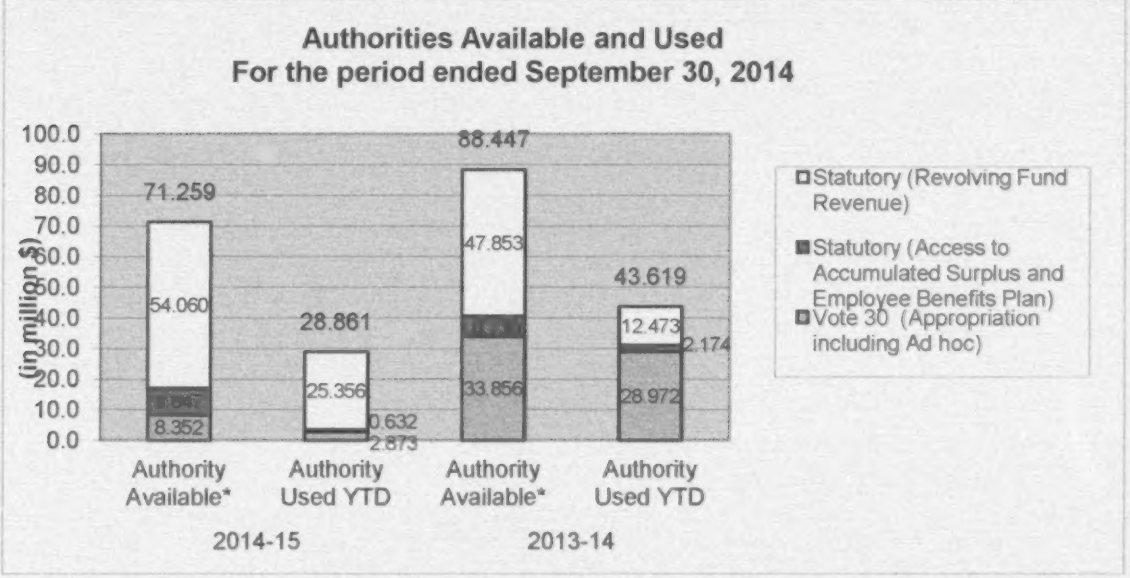
In fall 2012, the CGC initiated a process to modernize user fees to align with amendments to the *Canada Grain Act* introduced in Parliament as part of Bill C-45. Bill C-45 received Royal Assent on December 14, 2012. Amended legislation and updated user fees came into force concurrently on August 1, 2013 and eliminate the need for annual ad hoc funding going forward.

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation-funded personnel costs and the CGC revolving fund authority, which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 30 – Program Expenditures, which includes annual appropriation authority and any ad hoc appropriation authority for the fiscal year.

Fiscal year 2014-15 continues to be a transition year as a result of amendments to the *Canada Grain Act*, implementation of updated user fees, and changes to organizational design. The CGC implemented its sustainable funding model on August 1, 2013. Planned spending for fiscal year 2014-15 is based on operations under an amended *CGA* and updated user fees. It is anticipated the CGC's planned operational spending will stabilize at approximately $59.5 million. The CGC will recover approximately 91% of its costs through user fees. User fees will increase based on inflation as published in November 2012 in the CGC's user fee consultation and pre-proposal notification. Planned FTEs will stabilize at 404 during fiscal year 2014-15.

2. Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures. It should be read in conjunction with the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object*, which can be found at the end of this report.



* Authority available based on amounts approved through the Estimates process. Amounts detailed in Statement of Authorities.

2.1 Authority Available Analysis

As reflected in the *Statement of Budgetary Authorities*, the department's total authority available for use (net of Revolving Fund revenue) in the fiscal year as at September 30, 2014 is $17.2 million, as compared to $40.6 million as at September 30, 2013. The decrease of 57.6% ($23.4 million) can be attributed to the transition of the CGC to a sustainable funding model on August 1, 2013, resulting in the following changes in the CGC funding source elements:

1. Vote 30 (Appropriation including Ad hoc) authority has decreased by $25.5 million over the same period last year due to:

    a. a decrease of $9.5 million in voted appropriations to support employee termination benefit obligations with the implementation of amendments to the *Canada Grain Act*. In 2014-15, the CGC received a total of $2.9 million with $0.3 million of this amount to support the Employee Benefit Plan amount;

b. a decrease of $16.8 million in the CGC's ad hoc appropriation authority. While Budget 2012 identified ad hoc appropriation authority of $16.8 million for 2013-14, no additional ad hoc funding was identified for 2014-15, and

c. an increase of $0.8 million from the operational budget carry forward reported in the 2014-15 fiscal year. There was no operational budget carry forward reported in 2013-14.

2. Statutory (Access to Surplus and Employee Benefit Plan) authority increased by $2.1 million over the same period last year because:

   a. The CGC access to surplus increased $4.7 million over the same period last year. The CGC was provided approval to access up to $7.9 million to support severance payments in 2014-15. The CGC was provided approval to access up to $3.2 million of its accumulated surplus to support its operations for 2013-14; and

   b. Employee Benefit Plan decreased $2.6 million over the same period last year due to reduction in appropriation to support employee termination benefit obligations with the implementation of amendments to the *Canada Grain Act*.

With the implementation of revised user fees to support its sustainable funding model, the CGC forecasts an increase of $6.2 million in its revolving fund gross revenues authorities. This increase does not affect the change in the CGC budgetary authorities.

2.2 Authority Used Analysis

As reflected in the *Departmental Budgetary Expenditures by Standard Object*, the department's total budgetary authority used in the quarter ended September 30, 2014 is ($6.8 million), as compared to $15.7 million as at the quarter ended September 30, 2013. The decrease of $22.5 million in total budgetary authority used can be attributed to:

1. the overall increase of $11.0 million is due not only to revised user fees but also due to higher grain volumes handled as a result of the 2013 record crop year production and carryover; and

2. the overall decrease of $11.5 million in expenditures in quarter 2 is as a result of the following significant variances:

   a. Personnel expenditures in quarter 2 decreased by $11.5 million as compared to the same quarter last fiscal year. Expenditures related to ongoing salaries decreased by $3.5 million along with a reduction of $7.9 million in employee termination benefit obligations of employees who have departed the CGC in the second quarter. This reduction is primarily as a result of the continued transition to a revised organizational structure realized from amendments to the *Canada Grain Act*. Overtime costs were reduced by $0.1 million over the same quarter last year due to changes in service delivery;

b. Rental expenditures decreased by $0.2 million as compared to the same quarter last fiscal year. This decrease is due to the rent no longer required with the release of space and rental adjustment related to rental rate correction;

c. Repair and Maintenance expenditures increased by $0.2 million as compared to the same quarter last fiscal year. $0.2 million related to leasehold improvements was reported as repairs and maintenance in error and will be corrected in the 3rd quarter report; and

d. Acquisition of machinery and equipment has increased $0.2 million over the same quarter last year due to the refocus on capital refresh after the implementation of amendments to the *Canada Grain Act*.

The department's total budgetary authority used in the year to September 30, 2014 is ($8.0 million), as compared to $24.0 million for the same period last year. The decrease of $32.0 million in total budgetary authority used can be attributed to:

1. the overall increase of $17.2 million is due not only to revised user fees but also due to higher grain volumes handled as a result of the 2013 record crop year production and carryover; and

2. the overall decrease of $14.8 million in expenditures million is as a result of the following significant variances:

a. Personnel expenditures to date decreased by $15.7 million as compared to the same period last fiscal year. Expenditures related to ongoing salaries decreased by $5.6 million along with a reduction of $9.5 million in employee termination benefit obligations of employees for employees who have departed the CGC in this fiscal year. This reduction is primarily as a result of the continued transition to a revised organizational structure realized from amendments to the *Canada Grain Act*. Overtime costs were reduced by $0.6 million over the same quarter last year due to changes in service delivery;

b. Professional and special services decreased by $0.2 million as compared to the same last fiscal year. Specifically, expenditures related to the implementation legislative amendments such as legal and translations decreased by $0.1 million. An accrual of $0.1 million related to the hosting of SAP and Peoplesoft was reversed upon direction from Shared Services Canada indicating their policy surrounding third-party appropriated services had not been resolved for 2013-14;

c. Repair and Maintenance expenditures increased by $0.4 million as compared to the same period last fiscal year. Specifically, expenditures related to service agreements and other costs for laboratory equipment increased by $0.2 million and $0.2 million leasehold that was reported as repairs and maintenance in error and will be corrected in the 3rd quarter report; and

d. Other subsidies and payments increased by $1.1 million due to the one-time payment of $1.1 million for implementing salary payment in arrears by the Government of Canada.

As reflected in both the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object*, overall expenditures, with consideration to the above changes, are consistent between the quarters.

3. Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes handled—a volume which fluctuates from year to year. The CGC revolving fund is utilized as effectively as possible. The annual budget is also re-profiled through the year to deal with shifting needs and priorities, including planning for and accommodating a potential 20 percent swing in projected grain volumes during budgeting.

Legislation to amend the *Canada Grain Act* was introduced as part of Bill C-45, the *Jobs and Growth Act, 2012*, in October 2012. Bill C-45 received royal assent on December 14, 2012. On November 1, 2012, the CGC launched consultations on new CGC user fees that reflect an updated CGA and streamlined CGC operations. Most of the legislative amendments came into force on August 1, 2013. Updating user fees will eliminate the CGC's dependence on annual ad hoc funding and create a more stable environment for integrated people and business management. A stable funding environment will reduce overall organizational risk and allow the CGC to continue to successfully deliver its program activities and deliver upon its strategic outcome.

4. Significant Changes to Operations, Personnel and Programs

From fiscal year 2012-13 to fiscal year 2015-16, the CGC will have transformed itself into a streamlined and financially sustainable organization. This is due to certain activities being eliminated and other activities being adjusted and/or implemented to allow the CGC to continue to achieve its mandate and manage risk. Changes will result in a reduction in operational spending of $21.84 million between 2012-13 and 2015-16. Additional information on these changes is available in the CGC's *2012-13 Departmental Performance Report*.[1]

Planned operational spending will stabilize at approximately $60 million in 2014-15. This includes $5.4 million from annual appropriation and projected spending of approximately $53.1 million of revenue earned through user fees as adjusted for inflation. Planned human resource requirements will have decreased from approximately 731 full time equivalents (FTEs) (as at March 31, 2013) to 404 FTEs by the end of this fiscal year. The legislative amendments do not impact the CGC's strategic outcome, program alignment architecture, or the program expected results.

During the second quarter of 2014-15, the CGC continued to focus efforts on adjusting the CGC's organizational design and operations in response to both legislative amendments and restructured user fees.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and businesses to deal with their government; and modernize and reduce the back office.

The CGC is unaffected by the savings measures as announced in Budget 2012.

Budget 2012 provided $44.0 million over 2 years for the CGC to transition to a sustainable funding model. As a result of the transformation detailed in section 4, the CGC decreased its reliance on total budget authorities by 59.6% realizing a savings to the Government of Canada of $24.2 million in 2014-15. With the sustainable funding model, annual appropriations have been reduced to $5.5 million.

Approved by:

Elwin Hermanson
Chief Commissioner
Winnipeg, Manitoba
November 2014

Cheryl Blahey
Chief Financial Officer
Winnipeg, Manitoba
November 2014

Statements of Budgetary Authorities (Unaudited)

For the period ended September 30, 2014

(in thousands of dollars)	*Fiscal Year 2014-15* Total available for use for the year ending March 31, 2015*	Used during the quarter ended September 30, 2014	Year-to date at quarter end	*Fiscal Year 2013-14* Total available for use for the year ending March 31, 2014*	Used during the quarter ended September 30, 2013	Year-to date at quarter end
Vote 30						
Appropriation including Ad hoc	**$ 8,352**	**$ 1,341**	**$ 2,873**	**$33,856**	**$ 20,282**	**$ 28,972**
Statutory Authorities:						
Revolving Fund Gross Expenditures	62,007	11,496	25,356	51,053	2,644	12,473
Revolving Fund Gross Revenues	(54,060)	(19,953)	(36,822)	(47,853)	(8,934)	(19,586)
Revolving Fund Net Expenditures	**$ 7,946**	**$ (8,457)**	**$ (11,466)**	**$ 3,200**	**$ (6,289)**	**$ (7,113)**
Employee Benefit Plan	**900**	**303**	**632**	**3,538**	**1,670**	**2,174**
Total Statutory Authorities	**8,847**	**(8,154)**	**(10,834)**	**6,738**	**(4,620)**	**(4,939)**
Total Budgetary Authorities	**$ 17,199**	**$ (6,813)**	**$ (7,961)**	**$ 40,594**	**$ 15,662**	**$ 24,033**

**** Includes only Authorities available for use and granted by Parliament at quarter-end***

Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (unaudited)

For the period ended September 30, 2014

(in thousands of dollars)	*Fiscal Year 2014-15* Total available for use for the year ending March 31, 2015*	Expended during the quarter ended September 30, 2014	Year-to date at quarter end	*Fiscal Year 2013-14* Total available for use for the year ending March 31, 2014	Expended during the quarter ended September 30,2013	Year-to date at quarter end
Expenditures:						
Personnel	$ 52,361	$ 10,006	$ 21,856	$ 64,705	$ 21,482	$ 37,573
Transportation and communication	3,369	665	1,229	3,389	712	1,363
Information	191	27	52	192	45	79
Professional and special services	3,790	462	598	3,101	479	811
Rentals	4,948	1,008	2,536	4,978	1,240	2,711
Repairs and Maintenance	892	328	596	898	125	213
Utilities, materials and supplies	1,540	97	212	1,550	185	317
Acquisition of machinery and equipment	4,168	533	701	3,318	327	552
Other Subsidies and payments	0	13	1,081	1,303	0	0
Total Expenditures	**$ 71,259**	**$ 13,139**	**$ 28,861**	**$ 83,434**	**$ 24,596**	**$ 43,619**
Revolving Fund Revenue (To be credited to Vote)	**(54,060)**	**(19,953)**	**(36,822)**	**(42,840)**	**(8,934)**	**(19,586)**
Total Budgetary Authorities	**$ 17,199**	**$ (6,813)**	**$ (7,961)**	**$ 40,594**	**$ 15,662**	**$ 24,033**

** Includes only Authorities available for use and granted by Parliament at quarter-end*

Due to rounding, totals may not add to totals shown.

Endnotes

[i] CGC 2012-13 Departmental Performance Report, http://www.grainscanada.gc.ca/cgc-ccg/cr-rm/dpr-rmr/2013/dpr-rmr-2013-eng.htm